



California Board of Accountancy
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**DEPARTMENT OF CONSUMER AFFAIRS
 CALIFORNIA BOARD OF ACCOUNTANCY**

**MINUTES OF THE
 July 25, 2019
 CALIFORNIA BOARD OF ACCOUNTANCY MEETING**

Hilton Los Angeles Airport Hotel
 5711 W Century Boulevard
 Los Angeles, CA 90045
 Telephone: (310) 410-4000

Additional Location (Teleconference)
 California Board of Accountancy
 2450 Venture Oaks Way, Suite 420
 Sacramento, CA 95833
 Telephone: (916) 263-3680

Call to Order, Roll Call, Establishment of Quorum, and Opening Remarks.

California Board of Accountancy (CBA) Secretary/Treasurer Nancy J. Corrigan, CPA, called the meeting to order at 10:42 a.m. on Thursday, July 25, 2019 at the Hilton Los Angeles Airport Hotel in Los Angeles and recessed at 12:03 p.m. The CBA reconvened into open session from 1:30 p.m. until 2:57 p.m. The CBA convened into closed session from 2:58 p.m. until 3:53 p.m. Ms. Corrigan adjourned the meeting at 3:54 p.m.

CBA Members

George Famalett, CPA, President
 Mark J. Silverman, Esq., Vice-President
 Nancy J. Corrigan, CPA, Secretary/Treasurer
 Alicia Berhow
 Jose A. Campos, CPA
 Mary M. Geong, CPA
 Karriann Farrell Hinds, Esq.
 Dan Jacobson, Esq.
 Xochitl A. León
 Luz Molina Lopez
 Carola A. Nicholson, CPA

July 25, 2019

Absent
 Absent
 10:42 a.m. to 3:54 p.m.
 10:42 a.m. to 2:30 p.m.
 10:42 a.m. to 3:54 p.m.
 Absent
 10:42 a.m. to 3:54 p.m.
 10:42 a.m. to 3:54 p.m.
 10:42 a.m. to 3:54 p.m.
 10:42 a.m. to 3:54 p.m.
 10:42 a.m. to 3:54 p.m.

CBA Members

Deidre Robinson
Katrina L. Salazar, CPA (via Teleconference)
Michael M. Savoy, CPA

July 25, 2019

Absent
10:42 a.m. to 12:03 p.m.
10:42 a.m. to 3:54 p.m.

Staff and Legal Counsel

Patti Bowers, Executive Officer
Deanne Pearce, Assistant Executive Officer
Rich Andres, Information Technology Staff
Aaron Bone, Information and Planning Officer
Ileana Butu, Legal Counsel, Department of Consumer Affairs (DCA)
Paul Fisher, Enforcement Supervising ICPA
Dominic Franzella, Chief, Enforcement Division
Peter Renevitz, Legislative Analyst
Rebecca Reed, Board Relations Analyst
Carl W. Sonne, Deputy Attorney General, Department of Justice

Committee Chairs and Members

Joseph Rosenbaum, CPA, Chair, Enforcement Advisory Committee (EAC)
Jeffrey De Lyser, CPA, Chair, Peer Review Oversight Committee (PROC)

Other Participants

Jason Fox, California Society of CPAs (CalCPA)
Blake Johnson, Legislative Analyst, California State Treasurer Fiona Ma, CPA
Assemblymember Reginald Byron Jones-Sawyer, Sr., District 59
Pilar Oñate-Quintana, The Oñate Group

I. Report of the President.

- A. Resolution for Retiring Enforcement Advisory Committee Member Jeffrey De Lyser, CPA.

It was moved by Ms. Berhow and seconded by Ms. León to approve the resolution for Mr. De Lyser.

Yes: Ms. Berhow, Mr. Campos, Ms. Corrigan, Ms. Hinds, Mr. Jacobson, Ms. León, Ms. Molina Lopez, Ms. Nicholson, Ms. Salazar, and Mr. Savoy.

No: None.

Abstain: None.

Absent: Mr. Famalett, Ms. Geong, Ms. Robinson, and Mr. Silverman.

- B. Announcement of Appointments to the Mobility Stakeholder Group.

This Item was a written report only.

C. Update, Discussion, and Possible Action on Cannabis-Related Legislation.

1. Assembly Bill 1525 – Cannabis: Financial Institutions.

Assemblymember Reginald Byron Jones-Sawyer, Sr. representing the 59th District, stated that Assembly Bill (AB) 1525 would create a safe harbor under state law for financial institutions and accountants that provide services to the cannabis industry. He stated that AB 1525 would help banks better comply with federal reporting requirements despite the conflict between the federal laws and state laws regarding cannabis. He stated that currently there are only 486 banks and credit unions that supply services to cannabis institutions and they must comply with rigorous monitoring and reporting requirements.

Assemblymember Jones-Sawyer stated that AB 1525 would allow state licensing authorities joint power of authority to share business track-and-trace information and other regulatory information with the cannabis businesses' bank at the request of the business. He stated that the track-and-trace system tracks all cannabis products from cultivation to sale. He stated that this information, along with regulatory information, can be used by financial institutions to verify that every transaction associated with the business is legal under state law and ease the burden of complying with reporting requirements. He stated that AB 1525 would also codify protections under state law for financial institutions that serve the cannabis industry.

Mr. Jacobson requested that the language of the bill not only include certified public accountants (CPA) and accounting firms but also include public accountants (PA).

Assemblymember Jones-Sawyer stated that PAs along with any other similar entity can be incorporated into the language of the bill.

Ms. Molina Lopez inquired on the meaning of track-and-trace.

Assemblymember Jones-Sawyer stated that track-and-trace is following the product from seed, to cultivation, and then to sale. He stated that this also includes testing the cannabis for any harmful ingredients. He stated that the process is similar to how the Food and Drug Administration tracks the cultivation and sale of fruits and vegetables.

Ms. Berhow inquired on how the CBA could assist with getting AB 1525 passed.

Assemblymember Jones-Sawyer stated that the CBA could endorse AB 1525 and lobby to get the bill passed, once the amendments are incorporated into the bill.

Ms. Hinds inquired if there has been any feedback on AB 1525 from any financial institutions.

Assemblymember Jones-Sawyer stated that he has received positive feedback from financial institutions but few have stood up in support of AB 1525.

The CBA maintained its watch position but requested staff to prepare a letter requesting that the author of the bill include additional entities that may be effected by AB 1525, including Enrolled Agents and present the letter at the September 2019 meeting.

2. Senate Bill 51 – Financial Institutions: Cannabis.

Mr. Johnson, Legislative Analyst from State Treasurer Fiona Ma's Office, stated that Senate Bill (SB) 51 would establish cannabis limited charter banks (CLCB) and cannabis limited chartered credit unions (CLCCU) to provide limited banking services to the cannabis industry. He stated that SB 51 would also create the CLCB and the Credit Union Advisory Board, comprised of the State Treasurer, State Controller, Chief of the Bureau of Cannabis Control, and Director of the Department of Finance.

Mr. Johnson stated that Proposition 64 legalized the use of recreational cannabis within the state of California but did nothing to address the lack of financial services. He stated that the cannabis industry is expected to generate more than \$8 billion annually with the passage of Proposition 64. He stated that without incentivizing the industry to enter into the legal market, we are going to fall short of the financial projections.

Mr. Johnson stated that according to the Legislative Analyst Office, after the first six months of 2018, the state collected almost \$101 million less in marijuana sales tax revenue than what was forecast. He stated that this is due in part to the significant tax burden coupled with the lack of access of safe reliable banking. He stated that standard oversight and accountability measures, such as audits, become difficult when most transactions are completed in cash. He stated that these business face security risks because of the volume of cash in their possession. He stated that SB 51 is an integral step toward integrating cannabis-related businesses into the California economy in a safe and transparent manner.

Mr. Johnson stated that SB 51 would authorize CLCBs and CLCCUs to accept and maintain cash deposits. He stated that they would also be able to issue special purpose checks that may only be used to pay fees or

taxes to the state or local jurisdiction, payroll expenses, pay rent on property associated with the cannabis business, pay vendors located in California for expenses related to goods and services, and to purchase bonds or interest bearing notes.

Mr. Jacobson inquired if there could be special checks for employers, owners, and others so employees would not need to be paid in cash.

Mr. Johnson stated that an employee that holds a California license to work at a dispensary can draw a check from the dispensary.

Ms. Molina Lopez inquired if any other states have these types of limited charter banks.

Mr. Johnson stated that there has been some legislation regarding these types of limited charter banks, but there has been no legislation that has been put into place. He stated that Oregon has a process in place to allow for cannabis taxes to be paid electronically.

Ms. Molina Lopez inquired if there is an option to include more public members in the advisory board.

Mr. Johnson stated that he will discuss it with his office and will follow up with the CBA.

Ms. Berhow inquired if passed, the effective date of SB 51.

Mr. Johnson stated that SB 51 has an urgency clause and once signed by the Governor, will take effect immediately.

It was moved by Ms. Nicholson and seconded by Mr. Jacobson to adopt a support position on Senate Bill 51 – Financial Institutions: Cannabis.

Yes: Ms. Berhow, Mr. Campos, Ms. Corrigan, Ms. Hinds, Mr. Jacobson, Ms. León, Ms. Molina Lopez, Ms. Nicholson, Ms. Salazar, and Mr. Savoy.

No: None.

Abstain: None.

Absent: Mr. Famalett, Ms. Geong, Ms. Robinson, and Mr. Silverman.

- D. Discussion and Possible Action on the National Association of State Boards of Accountancy and American Institute of Certified Public Accountants Request for Input on the Evolving Licensure Model.

Ms. Pearce stated that the National Association of State Boards of Accountancy (NASBA) and American Institute of Certified Public Accountants (AICPA) have released a Request for Input on the Evolving CPA Licensure Model. She stated that for approximately two years, NASBA and AICPA have been working on this topic, often seeking input from stakeholders regarding how the profession is changing. She stated that as a result of this ongoing work, a Request for Input was developed, specifically seeking feedback on the guiding principles that have assisted in development of the new licensure model.

Ms. Pearce stated that various stakeholders, including boards of accountancy, were asked to provide input on the guiding principles using two questions: 1) Are these principles directionally correct; and 2) Would they help put the profession in a continued position of strength and relevance while protecting the public interest?

Ms. Pearce stated that this is the first time the CBA has engaged in formal discussions on this topic, and staff were seeking input regarding any feedback that should be provided.

Ms. León inquired on what impact these potential changes might have on the pipeline of future licensees. She stated that she would like to see what level of assessment has been done on the potential implications on the future pipeline.

Mr. Campos inquired if there was any dialogue at recent NASBA meetings on this subject and what input has been provided from other jurisdictions.

Ms. Salazar stated that these principles were presented at the NABSA Western Regional meeting and there were robust discussions regarding the evolving licensure model. She stated that there were many concerns regarding this topic. She stated that she believed this topic is meant to be broad and very forward looking and very preliminary, but there were concerns by some stakeholders. She stated that there are many more discussions that need to happen regarding this topic and that this is just the beginning of the discussions.

Mr. Campos stated that at this time it would not make sense for the CBA to issue a comment letter. He stated that California has some unique issues, and we already have a two experience license track. He stated that California is going to have a few more hurdles than a state that has a single license or single experience requirement might encounter.

Ms. Molina Lopez inquired on when the exposure draft would be expected.

Ms. Corrigan stated that the next exposure draft is anticipated in late 2019 or early 2020. She stated that until then, staff can continue to gather information regarding this topic.

Ms. Bowers stated that this topic is on the agenda for the NASBA Annual meeting scheduled in October.

Mr. Jacobson inquired if it was necessary for CPAs to be current with changing technology and knowing how computers work.

Ms. Corrigan stated that changing information technology was a significant discussion at the NASBA meeting and how to bring the Uniformed CPA Examination current with the changes in technology.

Mr. Savoy stated that CPAs for many years have been auditing around the computer. He stated that with the change in information technology, the knowledge of computers is necessary because everything is now done on the computer.

E. Discussion and Possible Action on the National Association of State Boards of Accountancy and American Institute of Certified Public Accountants Exposure Draft on Standards for Continuing Professional Education Programs.

Ms. Pearce stated that the purpose of this agenda item is for the CBA to review and discuss the AICPA's and NASBA's – jointly issued Exposure Draft on the Statement on Standards for Continuing Professional Education Programs (Standards) and determine if a comment letter should be submitted in response to the proposed Standards.

Ms. Pearce stated that AICPA and NASBA jointly issued the Standards, which provides a framework for the development, presentation, measurement and reporting of continuing education programs. She stated that the Standards were last revised in 2016.

Ms. Pearce stated that although many of the CE program requirements outlined in CBA Regulations mirror the Standards, the CBA maintains independence in the establishment of minimum program requirements for acceptable CE in California. She stated that the Standards that could impact CBA Regulations, include identifying a new category of learning and minor changes to nano learning.

Ms. Pearce stated that a standard is being proposed for a new category called adaptive learning self-study. She stated that CBA Regulations do not presently include this type of learning format. She stated that the Standards define the adaptive learning self-study program as a program that uses a computer algorithm or other predictive analytics tools to orchestrate

interaction with the learner and deliver customized learning activities to assist in meeting the course's stated learning objectives. She stated that a regulation change would be needed to allow for this type of learning format.

Ms. Pearce stated that the second change for consideration relates to Nano learning and proposes to remove the reference to it being a tutorial program and be redefined as a program designed to permit a participant to learn a given subject in a minimum of 10 minutes and less than 20 minutes through the use of electronic media without interaction with a real time instructor. She stated that the CBA has a pending rulemaking package to incorporate Nano learning into CBA regulations. The pending regulations do not include a reference to Nano learning as a tutorial program, so no change is need with that terminology; however, a regulation change would be needed to modify the proposed time allotment.

Ms. Pearce stated that once the Standards are final, they will be presented to the CBA to determine, what, if any changes the CBA would like to adopt into regulations. That would include adopting Adaptive learning self-study and modifying the time parameter for nano learning.

Ms. Molina Lopez inquired on when the final draft was to be expected.

Ms. Pearce stated that she will inquire on when the final draft will be expected.

Mr. Jacobson inquired if staff had an example of a subject that would be used within nano learning which would be learnable in under 20 minutes.

Ms. Pearce stated that there have been demonstrations of nano learning at NASBA regional meetings when nano learning was first being introduced. She stated that an example that was used was regarding an ethical situation with regards to computer access which lasted 10 minutes.

Mr. Campos stated that within his firm there are a number of quick learning items in different areas. He stated that some of the subjects that are covers are ethical situations and in the area of tax. He stated that this is an area that is evolving with the younger CPAs.

Ms. Pearce stated that the CBA has already adopted the nano learning format and the regulations are pending. She stated that this modification would be making time allotment on nano learning.

Ms. Nicholson inquired on the amount of time that would be allotted for Nano learning.

Ms. Pearce stated that time allotted would be a minimum of 10 minutes but no more than 20 minutes, but the allotment of time credit is still at the 10 minute time frame or one-fifth credit.

Ms. Bowers stated that the Uniform Accountancy Act (UAA) is a document that NASBA created that covers many areas. She stated that some states use the UAA as their rules and adopt the UAA in its entirety. She stated that in California, any time there is a change within the UAA, staff performs a comparison with CBA Regulations and bring that information to the CBA. She stated that the CBA then decides whether the changes in the exposure draft of the UAA is something that the CBA would want to incorporate into CBA Rules and Regulations.

It was moved by Ms. Hinds and seconded by Mr. Campos to approve the comment letter to the National Association of State Boards of Accountancy regarding the Statement on Standards for Continuing Professional Education Programs Exposure Draft.

Yes: Ms. Berhow, Mr. Campos, Ms. Corrigan, Ms. Hinds, Mr. Jacobson, Ms. León, Ms. Molina Lopez, Ms. Nicholson, Ms. Salazar, and Mr. Savoy.

No: None.

Abstain: None.

Absent: Mr. Famalett, Ms. Geong, Ms. Robinson, and Mr. Silverman.

- F. Discussion and Possible Action on the American Institute of Certified Public Accountants Exposure Draft on the Proposed Interpretation of the American Institute of Certified Public Accountants Code of Professional Conduct – Staff Augmentation Arrangements Interpretation.

Mr. Franzella stated that the purpose of this agenda item was to provide the CBA with an opportunity to review and discuss the AICPA Exposure Draft related to a proposed interpretation of the AICPA Code of Professional Conduct on Staff Augmentation Arrangements. He stated that the AICPA Code of Professional Conduct is a set of professional standards that licensees are required to follow when practicing public accountancy.

Mr. Franzella stated that the new interpretation being proposed relates to staff augmentations which are a nonattest service and the audit accounting firm lends staff to the client to perform certain services. He stated that the AICPA noted that there such services may create threats to independence and has included in the new interpretation safeguards to reduce the threats.

Mr. Franzella stated that NASBA issued a comment letter in February 2019 and noted several concerns regarding the proposed interpretation. He stated

that based on the feedback received during the original comment period, which ended in March 2019, the AICPA agreed to extend the period to obtain feedback from the various boards of accountancy via NASBA.

Mr. Franzella stated that staff have reviewed the Exposure Draft to determine how the new interpretation would affect existing regulations. He stated that as the AICPA Code of Conduct is a professional standard which licensees are held to and the new interpretation related to independence, if adopted, would be allowable. He stated that NASBA raised concern with its enforceability of the new interpretation, specifically the subjectivity of the proposed safeguards.

Mr. Franzella stated that while it would be difficult to assess the overall enforceability of the new interpretation, there is considerable subjectivity with the new interpretation which may have a significant impact on the overall ability of the CBA to enforce the new interpretation. He stated that as to the practical application the newly proposed interpretation would have on the practice of public accountancy, the CBA should assess whether the interpretation advances the CBA's mission of consumer protection.

Mr. Franzella stated that staff recommend that the CBA evaluate the exposure draft to determine if the new interpretation has an adverse impact on its mission of consumer protection. He stated that if the CBA wishes to issue a comment letter that direction on what to include in the letter is needed and requested a CBA member be assigned to work with staff and the CBA president.

Ms. Salazar noted that NASBA has discussed this topic with various stakeholders in breakout sessions at various meetings. She noted, in her opinion, she sees implementation of proposed interpretation as a challenge for the CBA's mission of consumer protection and it creates numerous difficulties when the new interpretation is subject to a wide latitude of interpretation.

Ms. Hinds suggested Ms. Salazar work with staff to draft the comment letter regarding our concerns with the staff augmentation and the CBA's mission of consumer protection.

It was moved by Ms. Hinds and seconded by Mr. Campos to direct staff to work with Ms. Salazar to draft a comment letter to PEEC regarding the CBA concerns with the staff augmentation and the impact to the CBA's mission of consumer protection.

Yes: Ms. Berhow, Mr. Campos, Ms. Corrigan, Ms. Hinds, Mr. Jacobson, Ms. León, Ms. Nicholson, Ms. Salazar, and Mr. Savoy.

No: None.

Abstain: Ms. Molina Lopez.

Absent: Mr. Famalett, Ms. Geong, Ms. Robinson, and Mr. Silverman.

G. Department of Consumer Affairs Director's Report on Departmental Activities.

This item was a written report only.

II. Report of the Vice-President.

A. Recommendations for Appointment(s)/Reappointment(s) to the Enforcement Advisory Committee.

It was moved by Ms. Hinds and seconded by Ms. Nicholson to appoint Jackson G. Johnson, CPA to the Enforcement Advisory Committee effective July 25, 2019.

Yes: Ms. Berhow, Mr. Campos, Ms. Corrigan, Ms. Hinds, Mr. Jacobson, Ms. León, Ms. Molina Lopez, Ms. Nicholson, and Mr. Savoy.

No: None.

Abstain: None.

Absent: Mr. Famalett, Ms. Geong, Ms. Robinson, Ms. Salazar, and Mr. Silverman.

B. Recommendations or Appointment(s)/Reappointment(s) to the Qualifications Committee.

There was no report on this agenda item.

C. Recommendations for Appointment(s)/Reappointment(s) to the Peer Review Oversight Committee.

There was no report on this agenda item.

III. Report of the Secretary/Treasurer.

A. Fiscal Month 10 Financial Report.

Ms. Corrigan reported that the CBA's actual expenditures as of April 30, 2019 were \$11,725,591, or 81 percent of the CBA budget. She stated that the CBA is currently projected to end fiscal year (FY) 2018-19 with an approximate surplus of \$163,000. She stated that the increase in surplus from what was reported on the Fiscal Month Eight Report was primarily attributed to adjustments to enforcement projections.

Ms. Corrigan stated that the total projected enforcement expenditures for FY 2018-19 is \$1,217,870. She stated that staff have been working with the Attorney General's Office to obtain current and up-to-date billings which has aided in providing more accurate projections through the end of the fiscal year.

Ms. Corrigan stated that the 2017-18 Fiscal Year-End Financial Statement had not yet been released by DCA. She stated that once the information is received, it will be presented to the CBA.

B. Discussion and Possible Action Regarding a Finding of Emergency and Initiate an Emergency Rulemaking to Increase Fees in Title 16, California Code of Regulations, Section 70 – Fees.

Ms. Pearce stated that the purpose of this agenda item is to provide the CBA the opportunity to initiate an emergency rulemaking to increase the CBA's license renewal and initial license fees to eliminate the structural imbalance between revenues and expenditures and maintain solvency.

Ms. Pearce stated that there is presently a legislative proposal contained in AB 1521, the CBA's Sunset Bill, to establish a minimum fee level for license renewal and initial licensure at \$250 and a statutory maximum at \$280. She stated that if this is approved through the Legislature and signed by the Governor, the minimum fee level would become effective on January 1, 2020.

Ms. Pearce stated that due to the uncertainty that can occur with Legislation, and the timing when the legislation may be approved, the CBA is being presented with a recommendation regarding an emergency Rulemaking to increase fee levels. She stated that an emergency rulemaking, if approved, is anticipated to become effective on January 1, 2020. She stated that once the Office of Administrative Law (OAL) approves the emergency rulemaking, communications and outreach on the fee levels can begin.

Ms. Pearce stated that staff is providing two recommendations regarding emergency regulations for the CBA to consider. She stated that the first recommendation is to request that the CBA make a finding of emergency and approve the proposed regulatory text and pursue the emergency rulemaking process.

Ms. Pearce stated that the second recommendation requests the CBA make an additional motion, with the difference being that the license renewal and initial license fee be set at \$280, contingent upon the approval of AB 1521, which increases the statutory maximum to \$280. She stated that the reason for the additional recommendation is to ensure the CBA increases its revenues to address anticipated expenditures. She stated that the \$280 fee

increase would ensure that revenues meet or exceed proposed expenditures to ensure the CBA remains solvent and has the resources necessary to carry out its consumer protection mandate.

Mr. Campos inquired that aside from the fee increase that is incorporated into the CBA's Sunset Bill, was there a fee increase that was being submitted through the regulatory process.

Ms. Pearce stated that the prior fee increase request is still pending and going through the regulatory process and will need to be completed. She stated that when an emergency rulemaking package is submitted, a regular rulemaking package still needs to be completed on a concurrent path. She stated that the fee increase within the Sunset Bill will be needed to make the emergency regulation final.

Ms. Bowers stated that as staff looked at the \$250 fee increase and projected the revenues that will be brought in and the anticipated expenditures that the CBA will have, the increase to \$250 will still be insufficient and will not produce the revenue needed to build the CBA's reserves. She stated that if the CBA does not start building its reserves and the CBA needs to draw funds from the reserve for an enforcement matter or other budget augmentation, then the funds will not be there.

Ms. Bowers stated that the hope was that through legislation, the fee would be set at \$280. She stated that after discussions with legislative members and staff, they were not comfortable moving forward with the \$280 fee. She stated that staff will try to negotiate the \$280 fee level over the next several weeks, but at this point staff did not feel confident that we could accomplish the \$280 minimum fee level. She stated that the \$280 fee level emergency regulation is a contingency. She stated that if staff cannot get that level into statute, then we would do it through regulation. She stated that it would negate the \$250 fee level in either legislation or regulation because we would have the \$280 emergency regulation that would go into effect.

It was moved by Ms. Berhow and seconded by Mr. Campos that the CBA:

- **Make a finding of emergency and initiate an emergency rulemaking to increase its license renewal and initial licensure fees to \$250;**
- **approve the proposed amended regulatory text in CBA Regulations section 70;**
- **direct staff to submit the text to the Director of the Department of Consumer Affairs and the Business, Consumer Services, and Housing Agency for review;**
- **if no adverse comments are received, authorize the Executive Officer to make any non-substantive changes to the proposed**

regulations, take all steps necessary to initiate and complete the emergency rulemaking process and submit the required documents to the OAL; and

- authorize re-adoption as needed until permanent regulations are approved by OAL.

Yes: Ms. Berhow, Mr. Campos, Ms. Corrigan, Ms. Hinds, Mr. Jacobson, Ms. León, Ms. Molina Lopez, Ms. Nicholson, and Mr. Savoy.

No: None.

Abstain: None.

Absent: Mr. Famalett, Ms. Geong, Ms. Robinson, Ms. Salazar, and Mr. Silverman.

It was moved by Ms. Berhow and seconded by Mr. Jacobson that the CBA:

- Make a finding of emergency and initiate an emergency rulemaking to increase its license renewal and initial license fees to \$280, contingent upon the approval of AB 1521;
- approve the proposed amended regulatory text in CBA Regulations section 70;
- direct staff to submit the text to the Director of the Department of Consumer Affairs and the Business, Consumer Services, and Housing Agency for review;
- if no adverse comments are received, authorize the Executive Officer to make any non-substantive changes to the proposed regulations, take all steps necessary to initiate and complete the emergency rulemaking process and submit the required documents to OAL; and
- authorize re-adoption as needed until permanent regulations are approved by OAL.

Yes: Ms. Berhow, Ms. Corrigan, Ms. Hinds, Mr. Jacobson, Ms. León, Ms. Molina Lopez, Ms. Nicholson, and Mr. Savoy.

No: Mr. Campos.

Abstain: None.

Absent: Mr. Famalett, Ms. Geong, Ms. Robinson, Ms. Salazar, and Mr. Silverman.

IV. Report of the Executive Officer.

A. Update on Staffing.

Ms. Bowers reported that Alegra Keith, Executive Secretary, accepted a position as the Assistant Human Resources Liaison within the CBA and will be transitioning into her new position.

B. Update on the California Board of Accountancy's Communications and Outreach.

Mr. Bone reported that since the May CBA meeting, staff have continued its collaboration with Cal Poly Pomona officials to hold an outreach event during the CBA's September meeting.

Mr. Bone stated that on August 3, 2019, CBA staff will be in attendance at a community outreach event and block party, hosted by Assemblymember Christopher Holden, Sr.

Mr. Bone stated that CalCPA will be kicking off another round of outreach events on community colleges, and the next event will be at Chaffey College in Rancho Cucamonga in September.

V. Report on the Enforcement Advisory Committee, Qualifications Committee, and Peer Review Oversight Committee.

A. Enforcement Advisory Committee.

1. Report of the July 11, 2019 Enforcement Advisory Committee Meeting.

Mr. Rosenbaum reported that the EAC reviewed two open case files and held four investigative hearings.

2. Approval of the 2020 Enforcement Advisory Committee Meeting Dates.

It was moved by Mr. Campos and seconded by Ms. León to approve the 2020 Enforcement Advisory Committee dates.

Yes: Ms. Berhow, Mr. Campos, Ms. Corrigan, Ms. Hinds, Mr. Jacobson, Ms. León, Ms. Molina Lopez, Ms. Nicholson, and Mr. Savoy.

No: None.

Abstain: None.

Absent: Mr. Famalett, Ms. Geong, Ms. Robinson, Ms. Salazar, and Mr. Silverman.

B. Qualifications Committee.

There was no report on this agenda item.

C. Peer Review Oversight Committee.

There was no report on this agenda item.

VI. Report of the Enforcement Chief.

A. Enforcement Activity Report.

Mr. Franzella provided an overview of this item.

VII. Report of the Licensing Chief.

A. Licensing Activity Report.

Ms. Pearce provided an overview of this item.

VIII. Meeting Minutes.

A. Adoption of the Minutes of the May 16, 2019, California Board of Accountancy Meeting.

It was moved by Ms. Hinds and seconded by Mr. Jacobson to approve agenda item VIII.A.

Yes: Ms. Berhow, Mr. Campos, Ms. Corrigan, Ms. Hinds, Mr. Jacobson, Ms. León, Ms. Molina Lopez, Ms. Nicholson, and Mr. Savoy.

No: None.

Abstain: None.

Absent: Mr. Famalett, Ms. Geong, Ms. Robinson, Ms. Salazar, and Mr. Silverman.

B. Acceptance of the Minutes of the September 20, 2018, Mobility Stakeholders Group Meeting.

C. Acceptance of the Minutes of the May 16, 2019, Enforcement Program Oversight Committee Meeting.

- D. Acceptance of the Minutes of the May 16, 2019, Committee on Professional Conduct Meeting.
- E. Acceptance of the Minutes of the May 16, 2019, Legislative Committee Meeting.
- F. Acceptance of the Minutes of the May 2, 2019, Enforcement Advisory Committee Meeting.

It was moved by Ms. Hinds and seconded by Ms. Nicholson to accept agenda items VIII.B. through VIII.F.

Yes: Ms. Berhow, Mr. Campos, Ms. Corrigan, Ms. Hinds, Mr. Jacobson, Ms. León, Ms. Molina Lopez, Ms. Nicholson, and Mr. Savoy.

No: None.

Abstain: None.

Absent: Mr. Famalett, Ms. Geong, Ms. Robinson, Ms. Salazar, and Mr. Silverman.

IX. Other Business.

A. American Institute of Certified Public Accountants.

- 1. Report on Meetings of the American Institute of Certified Public Accountants Attended by a California Board of Accountancy Representative.
 - a. State Board Committee.

There was no report on this agenda item.

B. National Association of State Boards of Accountancy.

- 1. Report of the National Association of State Boards of Accountancy Pacific Regional Director.

There was no report on this agenda item.

- 2. Report on Meetings of the National Association of State Boards of Accountancy Attended by a California Board of Accountancy Member or Staff.

Ms. Corrigan reported that she attended the new board member orientation held on the first day of the meeting. She stated that the orientation covered NASBA's mission, strategic plan, and ongoing activities.

Ms. Corrigan stated that there were discussions with the Evolution of the CPA Profession Taskforce that included reviewing education and the CPA Exam in critical areas, including technology. She stated that other topics included anti regulation battles, and the importance of having responsible licensing standards for accounting licenses compared to other occupational licenses, a presentation from AICPA regarding the peer review program and keeping up the quality of peer reviewers, and a report from the Examination Review Board which reviews, evaluates, and reports on the CPA Exam process.

a. Report of the Western Regional Meeting Held June 18-20, 2019.

b. Bylaws Committee.

There was no report on this agenda item.

c. Diversity Committee.

There was no report on this agenda item.

X. Report on the Mobility Stakeholder Group, Enforcement Program Oversight Committee, Committee on Professional Conduct, and Legislative Committee.

A. Mobility Stakeholders Group.

1. Welcome and Introduction of the Mobility Stakeholder Group Members.
Mr. Campos reported that the MSG welcomed the following new members:

- Jeffrey De Lyser, CPA, who has served on the EAC and presently Chair of the PROC.
- Jim Songey, who also serves on the EAC.
- Shawn Lewis, who works for the National Federation of Independent Business in California.

2. Report of the July 25, 2019, Mobility Stakeholder Group Meeting.

3. Update and Possible Action Regarding the California Board of Accountancy Directed Plan Related to the Ongoing Determinations of States' Substantial Equivalency to Enforcement Best Practices and Disciplinary Disclosures.

Mr. Campos stated that staff provided an update on the CBA-directed plan for the continued review of ongoing determinations of states' substantial equivalency to enforcement best practices and disciplinary disclosures. He stated that the plan that was adopted by the CBA in September 2018 was a risk-based approach to the evaluation process. He stated that highlights undertaken by staff included the following areas:

1. Conduct a Review of NASBA's Legislative Support Website to Monitor Legislation in Other States.
2. Review of Websites of Other State Boards of Accountancy and CPAVerify to Ensure Use of Disciplinary Flags and to Determine the CBA Maintains the Appropriate Disclosures and Disclaimers on its Website.
3. Monitor Cases Referred by the CBA to Other State Boards of Accountancy to Ensure that Proper Disciplinary Action is Taken.
4. Review Pre-Notification Forms Received by the CBA to Determine How Other States Handle SEC and PCAOB Referrals.
5. Report on Peer Review Practices of Other State Boards of Accountancy.

The MSG did not take any action on this item.

4. Discussion Regarding the Mobility Activity Report.

Mr. Campos stated that the MSG discussed the Mobility Activity Report (MAR), which provides statistical information on various areas associated with California's mobility program. He stated that at the request of the MSG, staff included a section in the MAR related to NASBA activities.

The MSG did not take any action on this item.

B. Enforcement Program Oversight Committee.

1. Report of the July 25, 2019, Enforcement Program Oversight Committee Meeting.
2. Discussion and Possible Action Regarding Licensees Who Completed the General Experience Requirement Providing Attestation-Related Services and Associated Enforcement Activities.

Ms. Corrigan reported that the EPOC had requested staff provide information regarding licensees who complete the general experience requirement providing attestation related services and associated enforcement activities after its meeting in May. She stated that staff provided an overview of the following items that were included in the agenda item:

- High-level information related to the experience requirement for licensure.
- Examples of recent enforcement actions the CBA has taken related to individuals who completed the general experience requirement and performed attest-related work.
- A set of policy topics associated with accounting firms providing attest-related work when the accounting firm is owned solely by licensees who have only completed the general experience requirement.

Ms. Corrigan stated that members expressed concerns regarding consumer expectations and knowledge of a CPA with or without the ability to sign reports on attest engagements and various policy issues, including those outlined in the materials prepared by staff and also potential insurance/liability policies.

The EPOC recommended that the CBA direct the Committee on Professional Conduct to deliberate on various policy issues related to accounting firms solely owned by licensees who have only completed general accounting services performing attest services.

Yes: Ms. Berhow, Mr. Campos, Ms. Corrigan, Ms. Hinds, Mr. Jacobson, Ms. León, Ms. Molina Lopez, Ms. Nicholson, and Mr. Savoy.

No: None.

Abstain: None.

Absent: Mr. Famalett, Ms. Geong, Ms. Robinson, Ms. Salazar, and Mr. Silverman.

C. Committee on Professional Conduct.

1. Report of the July 25, 2019, Committee on Professional Conduct Meeting.
2. Discussion and Possible Action Regarding Continuing Education Reciprocity.

This item was deferred to a future meeting.

D. Legislative Committee.

1. Report of the July 25, 2019, Legislative Committee Meeting.
2. California Board of Accountancy 2019 Legislative Tracking Chart.

This was a written report only.

3. Update, Discussion, and Possible Action on Legislation on Which the California Board of Accountancy Has Taken a Position.

a. Assembly Bill 63 – State Government.

Ms. Molina Lopez stated that AB 63 had not been amended since the last CBA meeting. The LC continued to maintain a Watch position on AB 63 and did not take any action on this item.

b. Assembly Bill 193 – Professions and Vocations.

Ms. Molina Lopez stated that AB 193 had not been amended since the last CBA meeting. The LC continued to maintain a Watch position on AB 193 and did not take any action on this item.

c. Assembly Bill 312 – State Government: Administrative Regulations: Review.

Ms. Molina Lopez stated that AB 312 had not been amended since the last CBA meeting. The LC continued to maintain a Watch position on AB 312 and did not take any action on this item.

d. Assembly Bill 476 – Department of Consumer Affairs: Task Force: Foreign-Trained Professionals.

Ms. Molina Lopez stated that AB 476 had not been amended since the last CBA meeting. The LC continued to maintain a Watch position on AB 476 and did not take any action on this item.

e. Assembly Bill 535 – Personal Income Taxes: Credit: Professional License Fees.

Ms. Molina Lopez stated that AB 535 had not been amended since the last CBA meeting. The LC continued to maintain a Watch position on AB 535 and did not take any action on this item.

f. Assembly Bill 544 – Professions and Vocations: Inactive License Fees and Accrued and Unpaid Renewal Fees.

Ms. Molina Lopez stated that AB 544 had not been amended since the last CBA meeting. The LC continued to maintain a Watch position on AB 544 and did not take any action on this item.

g. Assembly Bill 613 – Professions and Vocations: Regulatory Fees.

Ms. Molina Lopez stated that AB 613 had not been amended since the last CBA meeting. The LC continued to maintain a Support position on AB 613 and did not take any action on this item.

h. Assembly Bill 802 – Reports to the Legislature: Statewide Open Data Portal.

Ms. Molina Lopez stated that AB 802 would require state and local agencies to submit reports to the Legislature electronically, rather than by paper. She stated that recent amendments require the Department of Technology to establish and maintain a statewide open data portal and requires agencies, as specified, to post data to that open data portal.

The LC continued to maintain a Watch position on AB 802 and did not take any action on this item.

i. Assembly Bill 1076 – Criminal Records: Automatic Relief.

Ms. Molina Lopez stated that AB 1076 would establish a new administrative process operated by the Department of Justice that would grant arrest and criminal conviction record relief to eligible individuals. She stated that presently, between 10,000 and 13,000 CBA licensees have a non-active license status and have not submitted to a criminal background check. She stated that if one of those licensees returned to active status, but previously qualified for criminal record relief under the bill, the CBA may never become aware of those convictions.

Ms. Molina Lopez stated that it was requested by Ms. Hinds that staff inquire to determine whether other boards within DCA have adopted a position or have concerns.

Mr. Jacobson inquired if AB 1076 would change anything substantively. He stated that right now, somebody with a criminal conviction can have their record expunged by the courts. He stated that the only difference if this bill passes is the person wouldn't need to go through the court system because the Attorney General's Office would be expunging the records. He stated that he is in support of AB 1076 because it would eliminate the barrier of navigating through the court system, which could be costly.

Ms. Molina Lopez stated that the portion of AB 1076 that is concerning is that it would affect the licensees that have not submitted fingerprints or a background check to the CBA which include inactive licensees.

Mr. Bone stated that the concern with AB 1076 is that if a licensee happened to have an inactive-status when the fingerprinting requirement took effect in 2014 and still maintain an inactive-status to this day, then the CBA would not have fingerprints on file for that licensee. He stated that if the inactive licensee is arrested and convicted and does not self-report the arrest then the CBA would not receive the arrest information. He stated that if AB 1076 is passed and the licensee had a conviction that was eligible for relief under the bill and the relief was granted, and the license converted to active status and provided fingerprints, the CBA would be unaware of the conviction.

Ms. Butu stated that AB 1076 is inconsistent with AB 2138. She stated that AB 2138 is the denials and how we can divide people with their licenses. She stated that there was an area carved out specifically for the Contractors State Licensing Board and the CBA regarding certain crimes that we can access seven years since their conviction. She stated that the overlap from AB 2138 and AB 1076 basically eliminates the CBA's having access to those financial crimes that have been expunged or automatically lifted from that person's record under AB 1076.

Mr. Franzella stated that if there is access to that information on their record, it is allowed to be used by the CBA in consideration of denial. He stated that if that information has been expunged, there is already a specific code section within Business and Professions Code section 480 that eliminates the CBA's ability to use the expunged convictions for the purposes of a denial. He stated that this is a mechanism to go from a procedural process to an administrative process. He stated that presently, the CBA continues to receive expunged record information on a CORI report so the staff have an opportunity to view the conviction. He stated that while we may not be in a position to take action on the conviction, if there was something underlying in the CORI report that the CBA felt was dangerous that we wanted to conduct our own investigation, we would have access to that information. He stated that under AB 1076, the expungement would no longer be included in the CORI report so the CBA would have no record of that conviction.

The LC recommended the CBA adopt an Oppose, Unless Amended position on AB 1076, requesting the bill be amended to address concerns regarding the CBA's current non-active licensees who have not submitted to a criminal conviction background check.

Yes: Mr. Campos, Ms. Corrigan, Ms. Hinds, Mr. Jacobson, Ms. León, Ms. Molina Lopez, Ms. Nicholson, and Mr. Savoy.

No: None.

Abstain: None.

Absent: Ms. Berhow, Mr. Famalett, Ms. Geong, Ms. Robinson, Ms. Salazar, and Mr. Silverman

- j. Assembly Bill 1140 – Tax Preparers: Disclosures.

Ms. Molina Lopez stated that AB 1140 had not been amended since the last CBA meeting. The LC continued to maintain a Support position on AB 1140 and did not take any action on this item.

- k. Assembly Bill 1181 – Charitable Organizations.

Ms. Molina Lopez stated that AB 1181 requires the financial records relating to certain solicitations for charitable purposes be maintained according to specific accounting standards apart from generally accepted accounting principles. She stated that staff and Mr. Fox discussed recent advocacy efforts on AB 1181.

Ms. Molina Lopez stated that the LC did not take any action on this item but directed staff to submit a revised letter of opposition to the Legislature, in light of the recent amendments.

- l. Assembly Bill 1271 – Licensing Examinations: Report.

Ms. Molina Lopez stated that AB 1271 had not been amended since the last CBA meeting. The LC continued to maintain a Watch position on AB 1271 and did not take any action on this item.

- m. Assembly Bill 1521 – Accountancy: California Board of Accountancy.

Ms. Molina Lopez stated that AB 1521 was amended to establish that \$250 is the minimum, and \$280 is the maximum, amount the CBA may charge for its license renewal and initial licensure fees. She stated that staff recommended the CBA maintain its Support position on the bill.

The LC did not take any action on this item.

- n. Assembly Bill 1525 – Cannabis: Financial Institutions.

AB 1525 was deferred to the CBA meeting.

- o. Assembly Bill 1545 – Civil Penalty Reduction Policy.

Ms. Molina Lopez stated that AB 1545 had not been amended since the last CBA meeting. The LC continued to maintain a Watch position on AB 1545 and did not take any action on this item.

p. Senate Bill 51 – Financial Institutions: Cannabis.

SB51 was deferred to the CBA meeting.

q. Senate Bill 53 – Open Meetings.

Ms. Molina Lopez stated that SB 53 had not been amended since the last CBA meeting. The LC continued to maintain an Opposed position on SB 53 and did not take any action on this item.

r. Senate Bill 601 – State Agencies: Licenses: Fee Waiver.

Ms. Molina Lopez stated that SB 601 would authorize any state agency that issues any business license to establish a process for a person or business that has been displaced or is experiencing an economic hardship due to an emergency, to submit an application for a reduction or waiver of fees. The LC continued to maintain a Support position on SB 601.

The LC did not take any action on this item.

4. Review and Consideration of Possible Positions on Legislation.

a. Assembly Bill 5 – Worker Status: Employees and Independent Contractors.

Ms. Molina Lopez stated that AB 5 would codify the California Supreme Court's 2018 *Dynamex* decision that established revised criteria that classify workers as either an independent contractor or employee. She stated that the bill contains certain exceptions, including one that applies to accountants. It states that accountants whose working conditions meet a specified nine-point criteria are not bound by the *Dynamex* decision.

Ms. Molina Lopez stated that although the CBA, on occasion, contracts with outside CPAs to consult on enforcement matters, staff do not expect AB 5 to impact this practice.

This item was deferred until the next CBA meeting.

b. Assembly Bill 1343 – Private Postsecondary Education: California Private Postsecondary Education Act of 2009.

Ms. Molina Lopez stated that AB 1343 requires certain private colleges operating in California to meet specified spending criteria relative to the amounts of funding they receive from federal agencies. She stated that to establish their compliance with the bill, staff stated that affected private colleges may submit to the Bureau of Private Post-Secondary Education an audit or audited financial statement by a CPA attesting that the institution meets the spending requirements.

Ms. Molina Lopez stated that staff discussed that the types of accounting engagements contemplated by the attestation language of the bill may not be included within the scope of the audits that may be performed in the described situations.

The LC recommended that the CBA approve a Watch position on AB 1343.

Yes: Mr. Campos, Ms. Corrigan, Ms. Hinds, Mr. Jacobson, Ms. León, Ms. Molina Lopez, Ms. Nicholson, and Mr. Savoy.

No: None.

Abstain: None.

Absent: Ms. Berhow, Mr. Famalett, Ms. Geong, Ms. Robinson, Ms. Salazar, and Mr. Silverman.

5. Review and Possible Consideration of Positions on Legislation the California Board of Accountancy is Monitoring.
 - a. Assembly Bill 37 – Personal Income Taxes: Deductions: Business Expenses: Commercial Cannabis Activity.
 - b. Assembly Bill 286 – Taxation: Cannabis.
 - c. Assembly Bill 496 – Business and Professions.
 - d. Assembly Bill 545 – Cannabis: Bureau of Cannabis Control: Cannabis Control Appeals Panel.
 - e. Assembly Bill 768 – Professions and Vocations.
 - f. Assembly Bill 1184 – Public Records: Writing Transmitted by Electronic Mail: Retention.
 - g. Assembly Bill 1417 – Cannabis Advertisement and Marketing.
 - h. Assembly Bill 1678 – Indoor-Grown Cannabis Commission.

- i. Senate Bill 496 – Financial Abuse of Elder or Dependent Adults.
- j. Senate Bill 522 – Taxation.
- k. Senate Bill 546 – Unlicensed activity.
- l. Senate Bill 598 – Open Financial Statements Act.
- m. Senate Bill 700 – Business and Professions: Noncompliance with Support Orders and Tax Delinquencies.
- n. Senate Bill 749 – California Public Records Act: Trade Secrets.

Ms. Molina Lopez stated that Items a through n are bills being monitored by staff, and include spot bills and bills related to the cannabis industry.

The LC did not take any action on the above items.

- 6. Legislative Items for Future Meeting. The California Board of Accountancy may discuss other items of legislation in sufficient detail to determine whether such items should be on a future Legislative Committee meeting agenda and/or whether to hold a special meeting of the Legislative Committee to discuss such items pursuant to Government Code section 11125.4.

XI. Closing Business.

A. Public Comments.

There were no public comments.

B. Agenda Items for Future California Board of Accountancy Meetings.

There were no items for future California Board of Accountancy meetings.

XII. Closed Session: Pursuant to Government Code Section 11126(c) (3), the California Board of Accountancy Will Convene Into Closed Session to Deliberate on Enforcement Matters.

XIII. Closed Session: Pursuant to Government Code Section 11126(e), the California Board of Accountancy Will Convene Into Closed Session to Receive Advice From Legal Counsel on Litigation.

- A. *Sam Walker and Sam Walker CPA, Inc. v. Department of Consumer Affairs, California Board of Accountancy, and the Office of Administrative Hearings*, Los Angeles County Superior Court, Case No. BS171533.

- B. *Lanfeng Zhao and ELZ Accountancy Corporation v. California Board of Accountancy*, Los Angeles Superior Court, Case No. 18STCP02951.
- C. *Lowell A. Baisden v. Patti Bowers Executive Officer, Board of Accountancy, Department of Consumer Affairs, State of California, Evan J. Geilenkirchen, and Jane M. Geilenkirchen*, Fifth Appellate District Court of Appeal, Case No. F076662.
- D. *Subramaniam Easwara Ramanan and Neeka Accountancy Corporation v. California Board of Accountancy, Department of Consumer Affairs, State of California*, Sixth District Court of Appeal, Case No. H041566.
- E. *Michael D. Robinson v. California Board of Accountancy*, San Francisco County Superior Court, Case No. CPF-19-516602.

Adjournment.

Ms. Corrigan adjourned the meeting at 3:54 p.m. on Thursday, July 25, 2019.

_____ George Famalett, CPA, President

_____ Nancy J. Corrigan, CPA, Secretary/Treasurer

Rebecca Reed, Board Relations Analyst, and Patti Bowers, Executive Officer, CBA, prepared the CBA meeting minutes. If you have any questions, please call (916) 561-1718.